

August 31, 2001

MEMORANDUM FOR INTERNAL MANAGEMENT CONTROL FOCAL POINTS

SUBJECT: Fiscal Year 2001 Annual Statement of Assurance Guidance

This memorandum will serve as a reminder that an Annual Statement of Assurance, signed by the Head of each Department of Defense (DoD) Component or the principal deputy, must be submitted to the Secretary of Defense by November 15 of every year, covering the prior fiscal year. This is a standing requirement of DoD Instruction 5010.40, "Management Control Program Procedures." A separate memorandum issued by the Under Secretary of Defense (Comptroller) will provide this reminder to the Heads of the DoD Components in the late September timeframe.

Attached are the fiscal year (FY) 2001 Annual Statement of Assurance preparation guidelines. Further significant revisions are not anticipated; however, since the FY 2000 DoD Statement of Assurance has not yet been approved, additional changes are possible. Guidance for the preparation of the FY 2001 Statement of Assurance differs in several key aspects from previous reports, so you should pay close attention to the attached preparation guidance document for both format and content changes. In general, the current guidance calls for more succinct, summary type reports with added emphasis on quantitative measures of performance. A requirement to report on the funding budgeted for each corrective action also has been added.

The requirement that DoD Components submit annual statements in both paper copy and electronically (diskette or electronic mail) has been changed. A single paper copy of the Component report is now required, along with the corresponding electronic submission. If your Component statement is longer than 15 pages, the electronic submission should be by 3.5 inch diskette rather than through electronic mail. Electronic submissions should continue to be subdivided, i.e., submitted by statement tab rather than as a continuous document.

A copy of the DoD FY 2000 Annual Statement of Assurance will be made available for downloading from the Office of the Under Secretary of Defense (Comptroller) web site at www.dtic.mil/comptroller/fmfia.html as soon as it has been approved. You will be notified when that occurs. A copy of the attached guidelines also may be found at this web site.

Updated narratives for the DoD systemic weaknesses will be provided once they are received by this office; however, that is not anticipated before October 2001. For more information, please contact Mr. Tom Hafer by e-mail at: hafert@osd.pentagon.mil or by telephone at (703)-604-6350, extension 126.

/signed/

Ronald L. Adolphi
Director for Business Policy

Attachment

GUIDELINES

FOR PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2001

TABLE OF CONTENTS

	<u>PAGE</u>
Annual Statement of Assurance Requirements	3
DoD Components Required to Submit Annual Statements	5
Sample Cover Memorandum for Annual Statement of Assurance	6
Conceptualizing a Material Weakness	7
Description of the Concept of Reasonable Assurance and Additional Information on How the Evaluation was Conducted (Tab A)	9
Material Weakness/Corrective Actions (Tab B)	12
Lists of Uncorrected and Corrected Material Weaknesses (Tab B-1)	13
Uncorrected Material Weaknesses - Status of Corrective Actions (Tab B-2)	14
Material Weaknesses Corrected This Period (Tab B-3)	17
Report on System Conformance to Office of Management and Budget Financial System Requirements (Tab C)	18

ANNUAL STATEMENT OF ASSURANCE REQUIREMENTS

In accordance with Department of Defense (DoD) Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, the Head of each DoD Component shall forward to the Secretary of Defense, by November 15 of each year, a statement of assurance based on a general assessment of the effectiveness of their management controls. This statement also shall include material weaknesses and plans to correct the weaknesses. The statement shall be signed by the Head (or principal deputy) of the DoD Component.

The list DoD Components required to submit Annual Statements of Assurance is on page 5.

The Annual Statement submission shall consist of the following deliverables.

- A cover memorandum addressed to the Secretary of Defense, signed by the Head of the DoD Component or the principal deputy, providing the assessment by the Component's senior management as to whether there is reasonable assurance that the Component's management controls are in place and effectively operating. Under OMB Circular A-123, "Management Accountability and Control," June 21, 1995, this statement of assurance must take one of the following three forms (see sample memorandum on page 6):

1. An unqualified statement of assurance (reasonable assurance). Each unqualified statement must have a firm, verifiable basis for that assessment, which will be summarized in the cover memorandum. A comprehensive explanation of that assessment must be clearly articulated in the text of the statement.

2. A qualified statement of assurance (reasonable assurance with the exception of the material weaknesses noted). The material weaknesses in management controls that preclude an unqualified statement should be identified in the cover memorandum.

3. A negative statement (no reasonable assurance). The basis for this assessment must be summarized in the cover memorandum.

- TAB A: A description of how the DoD Component evaluation was conducted and a statement, based on that evaluation, which supports the level of reasonable assurance status achieved (sample on page 9).

- TAB B-1: A listing of the titles of all uncorrected and corrected material weaknesses identified as of the conclusion of fiscal year (FY) 2001 including the projected correction dates (for uncorrected weaknesses) and actual correction dates (for corrected weaknesses). See page 13 for additional guidance.

- TAB B-2: Narrative descriptions of all uncorrected material weaknesses including those identified during the current year and updates of disclosures for prior years). These narratives shall include the specific plans and schedules for corrective action. Since the corrective actions may be under development, it is acceptable for the narratives to reflect the current perceptions of the Component's senior management. The updated material weakness narratives for prior years, however, shall explain the reasons for changes to corrective milestones and dates. See page 14 for more specific guidance.

- TAB B-3: Narrative descriptions of material weaknesses corrected in the current year, including specific actions taken to correct the weakness. This section shall include material

weaknesses from both current and prior years. Each corrected material weakness shall include, as the last milestone, a validation milestone which describes how the corrective action was evaluated and how its effectiveness was certified. See page 17 for more specific guidance.

- TAB C: Pursuant to FMFIA section 4, the status of finance, accounting and critical feeder systems conformance to the requirements prescribed by OMB Circular A-127-Revised shall be reported in the FY 2001 edition of the "DoD Financial Management Improvement Plan" (FMIP). See page 17 for more specific guidance.

- Other disclosures or special presentations, including significant management control accomplishments that may arise, from time-to-time, due to specific requests or inquiries guidance concerning such presentations will be forwarded upon receipt.

- Components should forward an electronic version of their FY 2001 annual statements (diskette or electronic mail). A single paper copy, which includes the DoD Component or Principal Deputy's signed certification statement, also should be submitted. The electronic version of the Component statements should be subdivided and submitted by statement tab rather than as one continuous document. The electronic submission of statements longer than 15 pages shall be by 3.5 inch diskette rather than through electronic mail. The electronic version of each Component's Annual Statement are required by November 15, 2001. The mailing address is:

Office of the Under Secretary of Defense (Comptroller)
Directorate for Business Policy
Crystal Gateway 2
1225 Jefferson Davis Highway, Suite 900
Arlington, VA 22202-4912

Attention: Statement of Assurance Coordinator

- Components are reminded that the original, hard copy signed Annual Statements must be submitted directly to the Secretary of Defense. The statement shall be signed by the Head (or principal deputy) of the DoD Component only. The mailing address is:

Honorable Donald H. Rumsfeld
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

- Information copies of the Annual Statements from the Unified Commands should be furnished to the Chairman of the Joint Chiefs of Staff. The mailing address is:

General Henry H. Shelton, USA
Chairman of the Joint Chiefs of Staff
9999 Joint Staff Pentagon
Washington, DC 20318-9999

**DOD COMPONENTS REQUIRED TO SUBMIT
FY 2001 ANNUAL STATEMENTS OF ASSURANCE**

Office of the Secretary of Defense
Department of the Army
Department of the Navy
Department of the Air Force
Inspector General, Department of Defense
Joint Staff
Ballistic Missile Defense Organization
Defense Advanced Research Projects Agency
Defense Information Systems Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Intelligence Agency
Defense Logistics Agency
Defense Security Cooperation Agency
Defense Security Service
Defense Threat Reduction Agency
National Imagery and Mapping Agency
National Reconnaissance Office
National Security Agency
Uniformed Service University of the Health Services
US Central Command
US European Command
US Joint Forces Command
US Pacific Command
US Southern Command
US Space Command
US Special Operations Command
US Strategic Command
US Transportation Command

SAMPLE COVER MEMORANDUM FOR ANNUAL STATEMENT OF ASSURANCE

MEMORANDUM FOR THE SECRETARY OF DEFENSE (The cover memorandum must be addressed to the Secretary of Defense)

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

As **(title)** of the **(name of Component)**, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control of the **(name of Component)** has been conducted in a conscientious and thorough manner. The results indicate that the **(name of Component)** system of internal accounting and administrative control in effect during the fiscal year that ended September 30, 2001, taken as a whole, **[the statement must take one of three forms: "provides reasonable assurance" (unqualified statement); "provides reasonable assurance with the exception of the material weaknesses noted" (qualified statement); "does not provide reasonable assurance" (negative statement)]** that management controls are in place and operating effectively. Furthermore, the objectives of the FMFIA were **(achieved or not achieved)** within the limits described in Tab A. Tab A also provides information on how the evaluation was conducted and cites any deficiencies in the process.

The following paragraph will be included if material weaknesses were identified, either in the current fiscal year or past fiscal years:

The evaluation did identify material weaknesses. Tab B-1 provides a list of material weaknesses that still require corrective action. Tab B-2 provides an individual narrative for each material weakness listed at Tab B-1. **(Include the previous two sentences if your Component has uncorrected material weaknesses)** Tab B-3 provides an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year)**

The following paragraph will be included if your Component has critical feeder systems and finance and accounting systems in the Financial Management Systems inventory (as identified in the FY 2001 Financial Management Improvement Plan):

An inventory of the **(name of Component)** critical feeder systems and finance and accounting systems and details on whether the systems conform to the requirements of Office of Management and Budget (OMB) Circular A-127-Revised is incorporated in the FY 2001 edition of the DoD Financial Management Improvement Plan.

The following paragraph will be included if the preceding paragraph does not apply to your Component:

The report on critical feeder systems or finance and accounting systems conformance to the requirements of OMB Circular A-127-Revised is not applicable to **(Name of Component)**.

(Signature of Component Head or Principal Deputy)

CONCEPTUALIZING A MATERIAL WEAKNESS

Defining and specifying a management control material weakness is a management determination. Identifying and clearly defining a specific Management Control (MC) Program weakness requires conceptualizing the abstraction that is identified as “the weakness.” The weakness shall be defined and specified in such a way that it will provide the relevant parameters” that will enable DoD senior managers to describe the breadth, dimensions and impact of the weakness. The milestones specified to correct the weakness should resolve the materiality of the problem for the entire reporting DoD Component.

Although audit reports are an important source for identification of weaknesses, the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness. In addition, the DoD Components are expected to conduct at least annual self-assessments that may identify management control weaknesses in addition to those included in published audit reports. As stated in DoD Instruction 5010.40, the determination about whether a weakness is material enough to warrant reporting to levels higher than that at which it was discovered always shall be a management judgment. If a weakness first was identified in an audit report, the scope of the corrective actions should not focus on or be limited to a single or a few physical locations cited in the audit report. It would be the exceptional weakness that is sufficiently material to warrant reporting to the Secretary of Defense when limited to only one (or a small number of) physical location(s). Corrective action milestones should resolve the specified weakness, in its entirety, for the entire DoD Component. For smaller Components with only a few operating locations or activities, however, the one site focus of an audit report may be sufficient. Once reported, same weakness should not reappear as a new or re-titled weakness in a future Annual Statement because subsequent audit reports have revealed new instances of the same problem at other physical locations. If additional audit disclosures are significant, then a revision(s) to the milestone(s) associated with the originally reported weakness are advisable. The Component’s current-year Annual Statement should reflect all such revisions. Remember, a weakness should be resolved throughout the Component, and not just in a limited context.

Renewed attention should be focused on the management control weaknesses reported by the other DoD Components when preparing the Component’s own self-assessment. Review of previous annual DoD Statements of Assurance indicate some disparities in the reporting of weaknesses among DoD Components, particularly at the Military Department level. While differences in senior management interpretation of the materiality of those weakness may account for some of the disparity, all DoD Components are encouraged to review prior year Statements to ensure that their own self-assessments are at least consistent with the scope and level of reporting used by Components sharing similar, size, missions or functions. When a Component identifies a weakness that it has a reason to believe, or actual evidence that it may be shared by other DoD Components, it should report that information to the OUSD(C) coordinating office. In such instances consideration may be given to reporting it as a systemic weakness. Component management control program coordinators are encouraged to work together to help ensure greater accuracy, consistency and completeness in the reporting of those weaknesses.

Specification of the weakness and specification of the corrective actions (milestones) should be consistent. For example, if an audit report in the civilian personnel environment concluded that a DoD Component had inadequately implemented controls which would assure effective implementation of equal employment opportunity (EEO) requirements, the reported weakness and milestones should be consistent with that problem. It would be incorrect to report a weakness stating that the Component will correct deficiencies in civilian hiring practices and then report milestones that address only the EEO requirements deficiency. In that case, the specification of the weakness would be too broad (i.e., implying action greater than the Component

intends to take). Furthermore, if the audit report addressed only a deficiency in one aspect of EEO requirements, then the weakness should specify the more narrow, and accurate, specification of the problem. The Component should not report a weakness that implies a deficient application of all EEO requirements unless management intends to purposely broaden the scope of the action.

It often is preferable to address several related problems in one weakness statement; however, Components should be cautious when defining a weakness. For example, in addition to the hypothetical EEO weakness stated above, a Component might have concluded that there are other control problems related to civilian hiring practices. Combining all the problems and reporting a weakness which includes a broad statement that the Component will correct deficiencies in civilian hiring practices is still too general and overstates the dimensions of the weakness. The weakness statement should be confined to the scope of the specific problem(s) addressed. Consolidation of like weaknesses into a single comprehensive weakness is encouraged only when the appropriate conditions apply. The weaknesses must all be related functionally and share a common corrective action(s). Such conditions also include the ability to define specific and realistic corrective actions that can be accomplished within a reasonable timeframe. Care should be taken to clearly specify when a prior year uncorrected weakness is being reported as a newly consolidated weakness to permit accurate tracking with past Statements and for greater clarity of reporting. Rolling up a number of related weaknesses for the principal purpose of reducing the number of material weaknesses reported is to be avoided.

As a final note, Component management control program coordinators sometimes are uncertain when attempting to distinguish between a section 2 management control weakness from a section 4 noncompliant financial management system. This can be resolved by determining if the failure is in the financial management system design. If the failure is in the execution of a financial management system's procedures (e.g., data collection, human error, or failure to follow guidance)--when the system itself is properly designed and compliant with the established system operating requirements--then the problem should be reported as a section 2 management control weakness (Tab B). Only financial management system design issues should be reported as noncompliant systems under section 4 (Tab C).

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

This section describes the concept of reasonable assurance and the evaluation process used. The concept of reasonable assurance should be described as follows:

The system of internal accounting and administrative control, of the **(name of Component)**, in effect during the fiscal year ending September 30, 2001, was evaluated in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996 and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued by the OMB Director, in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative control of the **(name of Component)** is in compliance with standards prescribed by the Comptroller General. **(If a self-evaluation of the system of internal accounting and administrative control was not conducted, or the evaluation was insufficient when compared to the Guidelines, indicate that and provide an explanation).**

The objectives of the system of internal accounting and administrative control of the (name of Component) are to provide reasonable assurance that:

- The obligations and costs are in compliance with applicable laws
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by **(name of Component)** and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of management controls should not exceed the benefits expected to be derived and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description.

The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of Component)** in effect during the fiscal year that ended September 30, 2001, taken as a whole, **(complies/does not comply)** with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

The description of how the evaluation was conducted should include the following:

1. The progress achieved in institutionalizing the program (A brief description of how the Component Management Control program is applied or reviewed for compliance also could be used here if it has already been fully implemented)
2. Any improvements to program coverage
3. A description of the problems encountered in implementing the program
4. Other program considerations (e.g., resource constraints, technological bottlenecks, operational or mission considerations, etc.)
5. Any deviations from the process as outlined in the OMB Guidelines
6. Any special concerns addressed in reports by the IG, DoD or Component audit, investigation, inspection and/or internal review organizations regarding Management Control (MC) progress, program needs, and/or problems
7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:
 - a. MC Weakness Tracking System (number of weaknesses and milestones)
 - b. Component IG or Audit Service Findings
 - c. Reports of Component Internal Reviews and Inspections
 - d. IG, DoD Reports and Reviews
 - e. MC Training
 - f. MC Performance Standards
 - g. GAO Reports and Reviews
 - h. Review of Office of the Secretary of Defense (OSD) Functional Proponent Proposals (e.g., systemic weaknesses)
 - i. Information Technology Initiatives
 - j. MC References in Directives, Regulations, and other Guidance
 - k. Congressional Reviews and Hearings
 - l. Command or other Subordinate "Letters of Assurance"
 - m. Productivity Statistics
 - n. Defense Regional Interservice Support Studies
 - o. Management Reviews in other Functional Areas (e.g., Procurement; Command, Control, Communications and Intelligence; Financial; or Environmental)

p. Quality Assurance Reviews

q. “Hot Line” Reports.

If your management control process employs any of the preceding items, or any other methods, mechanisms, or techniques, they should be described in the narrative for Tab A.

Office of the Secretary of Defense (OSD) Systemic Weakness Disclosure

In February 1994, the Secretary of Defense issued guidance that, in part, directed OSD Functional Proponents to identify and report “systemic” DoD material management control weaknesses. Narratives identifying OSD systemic weaknesses periodically are forwarded to DoD Component focal points.

As a last disclosure in Tab A, all DoD Components shall develop a section entitled “Systemic Weaknesses.” Below the title of each OSD systemic weakness, list all the material weaknesses, both corrected and uncorrected, contained in your organization’s current fiscal year Annual Statement of Assurance that are related to the systemic weaknesses, both corrected and uncorrected. The Component Annual Statement page number of the related weaknesses should be shown immediately to the right of the title of each weakness. Information on the FY 2001 systemic weaknesses to be reported will be forwarded as soon as possible.

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

This section presents management control weakness information in three subset tabs:

- A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of the current period along with actual and projected correction dates (Tab B-1)
- Narratives for the uncorrected material weaknesses identified in the summary listing (Tab B-2)
- Narratives for all material weaknesses corrected during the current period (Tab B-3).

The three subset tabs are illustrated on the following pages.

DoD Management Control Reporting Categories: Material weaknesses, both uncorrected and corrected, should be grouped by the DoD functional category designations displayed below. Definitions of the categories may be found at enclosure 4 of DoD Instruction 5010.40, "Management Control Program Procedures."

- Research, Development, Test and Evaluation
- Major Systems Acquisition
- Procurement
- Contract Administration
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Supply Operations
- Property Management
- Communications and/or Intelligence and/or Security
- Information Technology
- Personnel and/or Organization Management
- Comptroller and/or Resource Management
- Support Services
- Security Assistance
- Other (primarily Transportation)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

This section should be developed following the completion of Tab B-2 and Tab B-3 since it is a summary listing of Tab B-2 and Tab B-3 weakness titles and correction dates. The material weakness titles should be divided into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

Uncorrected Weaknesses Identified During the Period: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Targeted Correction Date</u> (4)	<u>Page #</u> (5)
----------------------------	---	-----------------------------

Uncorrected Weaknesses Identified During Prior Periods: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Year First Reported</u> (2)	<u>Correction FY Date</u>		<u>Page #</u> (5)
		<u>Per Last Annual Statement</u> (3)	<u>Per This Annual Statement</u> (4)	

Corrected Weaknesses Identified During All Periods: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Year First Reported</u> (2)	<u>Page #</u> (5)
----------------------------	--	-----------------------------

NOTES:

1. Titles should be identical to those found on the material weakness narratives provided in Tab B-2 or B-3.
2. The fiscal year in which this weakness was first reported. List starting with the most recently reported material weakness, continuing to the oldest.
3. The fiscal year noted as the targeted date for correction of the material weakness in the Component's FY 2000 Annual Statement.
4. The fiscal year noted as the targeted date for correction of the material weakness in the Component's FY 2001 Annual Statement.
5. The page number is that of the first page of the material weakness narrative as found in Tab B-2 or B-3.

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

This enclosure should provide a narrative for each uncorrected material weakness identified by the Component for which corrective actions have not been completed, regardless of the year of first reporting. Each weakness should begin at the top of a new page. The narratives contained in Tab B-2 should be grouped into two subsections: “Uncorrected Weaknesses Identified During the Period” and “Uncorrected Weaknesses Identified During Prior Periods.”

For weaknesses appearing in the first subsection, “Uncorrected Weaknesses Identified During the Period,” the appropriate response for items 5, 6 and 7 (below) is “N/A.” **(The numbers and letters used below are only provided to assist in your comprehension of this guidance and should not appear in your Annual Statement. Only the headings should appear. The headings should not be in bold type in your Annual Statement.)**

Remember that acronyms must be spelled out the first time they are used in every material weakness narrative. This is necessary because narratives are reproduced directly from the “electronic” version of your statement. Other sections of Component statements are not used in the DoD statement. Each deviation from this guidance delays the completion of the DoD statement.

There is a change in reporting approach to be followed in preparing the narratives for the uncorrected material weaknesses this year. The status reports are to be simplified to the greatest extent possible by summarizing what was previously presented in detail. Each uncorrected material weakness report should be no longer than three pages in length, avoid use of the passive voice, minimize the use of acronyms and use “bullets” wherever feasible to succinctly describe both the actions taken and planned.

The narratives must follow the format below. Use the headings indicated below in bold type in the exact sequence. **Do not exclude sections.** If they are not applicable simply note “N/A” following the heading. **Do not include the numbers that appear before the headings below; they are provided to assist in your comprehension of this guidance.**

1. **Title and Description of Material Weakness:** If the weakness was reported in a prior year, indicate the OSD Tracking System weakness number parenthetically following the title. The description of the weakness should be confined to no more than three or four sentences if possible.
2. **Functional Category:** Indicate one of the 15 functional categories provided on page 10 of this guidance.

Place of Corrective Action:

3. **Year Identified:** Fiscal year of the Annual Statement in which the weakness was first reported by the Component.
4. **Original Targeted Correction Date:** Fiscal year of the targeted correction date as it was first reported by the Component in item 3 above.
5. **Targeted Correction Date in Last Year’s Report:** Fiscal year of the targeted correction date as it was reported in the Component’s FY 2000 Annual Statement.
6. **Current Target Date:** Fiscal year of targeted correction date per this reporting.

7. **Reason For Change in Date(s):** Reason for change in fiscal year if response to item 5 is different from item 6. Indicate "N/A" if item 5 and 6 are the same.
8. **Component/Appropriation/Account Number:** Identify the title of the DoD Component related appropriation(s) and account number. When identifying the appropriation(s), nomenclature should be consistent with standard DoD designations, e.g., Operation and Maintenance, Army; Research, Development, Test and Evaluation, Navy; Aircraft Procurement, Air Force; and Military Construction, Defense Agencies.
9. **Validation Process:** Briefly indicate the methodology that will be used to certify the effectiveness of the corrective action and the date that certification is projected to take place. In addition, indicate the role the Inspector General, or the Component Audit Service can or should play in verification of the corrective action.
10. **Results Indicators:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and/or qualitative measures that determine the benefits derived or will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, that information should be provided here. **Components are requested to specifically identify one or two defined performance measures that will be used to determine successful completion of the proposed remedial effort.**
11. **Source(s) Identifying Weakness:** Use the following other applicable sources: (a) Management Control Program Evaluation; (b) IG,DoD; (c) Component Audit Service; (d) GAO; (e) Component Internal Review Organization; (f) Component IG; or (g) Other. When audit findings are the source of weakness identification, identify the title, number and date of the document in which the weakness was identified. If the weakness was identified by more than one source, list all identifying sources in order of significance. **Please note that dates should be written civilian style (e.g., December 31, 2001), not military style (e.g., 31 December 2001), and do not abbreviate the month.**
12. **Major Milestones in Corrective Action:** A milestone chart indicating actions taken and those actions planned for the future. Milestones should be separated into three categories: (a) completed milestones, (b) milestones planned for FY 2002, and (c) milestones planned beyond FY 2002. Milestones should be listed in chronological order by milestone completion date with the terminal milestone listed last. The terminal milestone should be the final corrective action, and should either be or include the verification of the correction. For weaknesses reported in previous years, there is no need to note or explain changes in milestone dates; simply indicate the updated date for each milestone. The letter "C" (for completed) should be used for accomplished milestones, rather than a date. The appropriate format is as follows:

Completed Milestones:

Date:	Milestone:
--------------	-------------------

Planned Milestones (FY 2001)

Date:	Milestone:
--------------	-------------------

Planned Milestones (Beyond FY 2001)

Date:	Milestone:
--------------	-------------------

13. **Status of Participating Functional Office/Organization:** If support of another office within the reporting Component's organization; another Component (e.g., Army, Joint Staff or Defense Commissary Agency), or another organization (e.g., an OSD functional office) is necessary for the correction of this material weakness, the Component should list those organizations. After each office, indicate whether that support is: assured, undetermined, or not anticipated. For example:

Comptroller (I)	Assured
Command, Control, Communications and Intelligence (X)	Assured
DLA (X)	Assured

NOTE: Functional offices should be identified with an "I" if they are internal to the reporting organization and identified with an "X" if they are external to the reporting organization.

DoD Components may modify the suggested formatting of this data if an alternative presentation provides a clearer understanding of the major participants in the resolution of the control deficiency. This information is based on the perception, judgement or understanding of the office reporting the management control weakness. The information shall be retained within the Department and not reported in the DoD Annual Statement of Assurance. It shall, however, be shared with the identified functional offices and organizations consistent with the Secretary's 1994 guidance so as to promote greater awareness of control deficiencies within the Department.

14. **Point of Contact:** The name, telephone number and e-mail address of the official responsible for administering the implementation of corrective actions.

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

Tab B-3 should provide a narrative for each material weakness for which corrective actions have been completed in FY 2001. Each material weakness should begin at the top of a new page. The Tab should be grouped into two subsections: "Identified During the Period" and "Identified During Prior Periods."

Weaknesses appearing in Tab B-3 should follow format and data requirements identified for Tab B-2. Item 12, "Major Milestones in Corrective Actions," however, will reflect only completed milestones. Item 13, "Status of Participating Functional Office/Organization," should be omitted.

REPORT ON SYSTEM CONFORMANCE TO OFFICE OF MANAGEMENT AND BUDGET FINANCIAL SYSTEM REQUIREMENTS

The Office of Management and Budget prescribes Federal financial management systems policies and requirements in OMB Circular A-127, "Financial Management Systems." Instructions for completing the FMFIA, section 4 report on conformance of DoD financial management systems with the OMB requirements were forwarded with a March 1, 2000, memorandum from the Principal Deputy Under Secretary of Defense (Comptroller), subject: "Fiscal Year (FY) 2000 Financial Management Improvement Plan." The memorandum stated that, for FY 2000, the Department was again combining the FMFIA, section 4 requirement with other legislative and regulatory reporting requirements into its "Financial Management Improvement Plan" (FMIP). For fiscal year 2001, the Department is again going to satisfy the FMFIA, section 4 reporting requirement through the FMIP.

No additional action related to FMFIA, section 4 reporting--beyond that required for the FY 2001 FMIP--is required of the Components for their Annual Statement of Assurance submission. For additional information on the FMIP, please contact Mr. Ron Brooks by e-mail at: brooksr@osd.pentagon.mil or by telephone at (703) 697-3193.